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ABSTRACT

Economic development efforts in small towns should focus on the birth, expansion, and retention of small enterprises. A consistent and rational policy towards new growth and an enthusiastic development team composed of individuals with knowledge of or access to others with knowledge of industrial sites, financing, utilities, labor, transportation, construction, insurance, local government, taxation, media, and environmental considerations are essential. Initial efforts of the development team should include a community inventory of existing firms and follow-up visitation to the firms to report findings and address problems or concerns. An action plan should be implemented to improve the local economic environment through development of regular business management/development courses, improvement of access to business development capital, identification and classification of industrial sites, evaluation of the need for new buildings for existing firms, examination of alternative ways to enlarge or remodel existing structures, and review of the need for vocational training and retraining programs. Economic development strategies should emphasize planning for the use of money; helping smaller, existing firms expand; assisting new firms, particularly in the areas of recordkeeping, financial planning, and management; and offering retail and service firms the same assistance available to manufacturing firms. An interviewer's survey form is included. (NEC)

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Developing Local Businesses As Job Providers

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August 1985

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hard times
COMMUNITIES IN TRANSITION

Developing Local Businesses As Job Providers

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Existing businesses and new business startups by current residents are usually overlooked when local efforts are made to stimulate economic activities in the West. Considerable effort goes into attracting outside industries or the glamorous high-tech firms to locate in rural areas, but in most cases these efforts are not as productive as efforts made towards working with local firms. Especially in small communities, economic development efforts should be focused on the birth, expansion, and retention of small enterprises. "Two-thirds of all jobs are created by firms with less than 20 employees. Young firms less than five years old produce 80 percent of all jobs (52 percent of which are independent businesses)." (1: page 266)

Since these small, young firms tend to produce most of the new jobs, local efforts directed at these firms would be, in many cases, the most productive path to follow for economic development organizations. This is not to say that traditional development programs aimed at outside industry should be discarded, but the program should be balanced with a strong thrust towards existing and new businesses. "One study...found that...there were approximately 16,000 development organizations competing for 200 available corporation moves; the efforts cost well over $250 million." (1: Page 27). Outside industry might not be the best bet.

The Texas Electric Service Company listed several reasons why local development efforts should begin with existing firms: (2)

- Many of the local firms grew out of local advantages or needs.
- Existing firms have proven their adaptability to local conditions.
- An industrial development effort frequently will get quicker results by dealing with local firms than it will by negotiating outside interests.
- Satisfied firms can form the best advertisement for attracting new firms to the area.

While some things may be outside the control of a community, there are a number of other things a community can influence to improve local business conditions:

- provide sites or buildings suitable for expansion
- improve financial services
- locate suitable employees
- locate capable subcontractors
- secure engineering or research for improved or new products
- arrange for improved transportation, utilities, and safety services
- initiate civic action concerning housing, education, recreation, and government relations
- provide vocational training programs
- maintain a good climate for business, including a positive local attitude
- establish clear zoning and land-use regulations

For any economic development program to be successful, community involvement and support over an extended period of time is one of the most critical ingredients. If the majority of the local residents support economic growth, it will be much easier to achieve. Frequently, people are willing to accept certain types of growth while opposing others. A willingness to accept any kind of growth is not required, but a consistent and rational policy towards new growth is essential.

Organizing for Development

Communities may form different types of organizations or groups to deal with economic development in the community. However these groups are formed, the end result is a team or committee that will work for economic improvement. A number of approaches for forming this team have been tried. A key ingredient is to have respected community leaders who are willing to serve and make a long-term commitment. The team should have individual members who either have knowledge of or access to others with knowledge of industrial sites, financing, utilities, labor, transportation, construction, insurance, local government, taxation, media, and environmental considerations. In most cases, the Chamber of Commerce, city and county government, and major businesses in the community should be represented on the team.

It may be advisable to organize a non-profit corporation such as a local development corporation. Whatever approach is used and

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however the team is formed, the important thing is to get the team organized and working with the support of the major elements of the community. The idea is to involve as much of the community as possible. (See other publications by the Western Rural Development Center, [WRDC], Oregon State University, for additional information on this subject.)

The Community Inventory

Once the development effort is organized, one of the first programs should be a community inventory. This inventory should include a list of existing firms with the owners, officers, and major employee categories listed. Also included in the inventory should be a list of possible location sites with descriptions of city or public services, existing and potential labor supplies and wages, housing, utilities, transportation, and taxes. The inventory can be used with existing firms as well as outside firms.

Once all the firms have been identified in the survey, the development organization may wish to form a subcommittee to deal with existing business and new business ideas of local residents. Either the overall economic development team or a subcommittee should establish a visitation and follow-up committee. This committee should consist of three or four members of the team who interview each local firm to determine problems or concerns of the firm and plans or potential plans of the firm for expansion. Once the visits are completed, every effort should be taken to follow up on the firms' concerns and the firms should be informed of the team's effort. The visitation and follow-up committee should let each firm know that the team is interested in the firm and its well-being.

The team should place itself in a position to assist in unraveling red tape and to provide guidance and advice in such areas as zoning, traffic control, transportation, water and sewer, utilities, financing, and referral to appropriate sources of business management skills.

The visitation and follow-up committee should develop a survey form and cover letter such as the example in Figure 1. The cover letter should be sent to each firm along with the survey form. State in the letter that you will be calling within the week for an appointment at which time you will pick up the completed survey, discuss problems, and make recommendations. Explain also that all information will be strictly confidential. Work one or two visitations a month. This will give you time to follow up on the firms' concerns. At their convenience, go to the managers' offices, listen carefully to what is being said and then be sure to follow up.

A questionnaire should be developed for the interviewer to use as a guide when conducting the interview. An example is given in Figure 2. The interviewer should be familiar with the questions on the questionnaire but not fill it out during the interview. As soon as the interview is over, perhaps in the car, the interviewer should fill it out. This approach might lead to a more relaxed, informal meeting.

During the interviews, team members should not make any statements or commitments that cannot be fulfilled. This would do more to ruin team credibility than any other action.

A review and follow-up should start immediately. If the firm has a problem or concern that can be addressed locally, make every effort to help the firm. Let the firm know you are working on its problems and keep it informed of your progress.

Follow-Up Activities

After conducting a community inventory and determining local firms' needs and attitudes, the economic development team should develop a plan of action. Examples of actions which could be included in the plan to develop an improved local economic environment include:

- development of a regular series of business management and development courses
- improvement of access to business development capital
- identification and classification of industrial sites
- evaluation of the need for various types of new buildings for existing firms, and alternative ways of financing buildings
- examination of alternative ways to enlarge or remodel existing structures
- review of the need for vocational training and retraining programs

To further assist existing firms, the economic development team must develop a structure to meet with local business officials to discuss their plans and problems and to offer local solutions when possible. One approach is to invite company officials to an informal, unstructured session with the team. Another possibility would be to develop for the team an advisory committee comprised of local businesspeople.

One activity with which to help existing business relations would be to have regularly scheduled meetings at the facilities of a different firm each time the economic development team meets. Although approaches may vary, the objective is to show your interest and willingness to help whenever you can.

Another approach is to have an "appreciation day" for local firms or programs with the local media where a series of stories about local firms are printed. Another approach might be to encourage service clubs to invite company officials to speak at their meetings. There are many other possibilities but the objective is to let local firms know that the community appreciates them.

FIGURE 1

Mr. John C. Smith
ABC Machine Company
145 East 4th Street
Ourtown, NM 88080

Confidentially, Mr. Smith:

ABC Machine Company has been a great asset to Ourtown. In order for the relationship between your firm and our community to continue and improve, the Ourtown Economic Development team is seeking ways in which we might be of some assistance.

Problems at ABC Machine Company, existing or potential, are as important to us as they are to you. The continued growth and success of your company has a great meaning to all citizens of Ourtown.

To that end, we will be calling you next week for an appointment. At that time we would like to discuss, in confidence, your areas of concern (if any) and how we may help with them.

In the event there should ever be a publication of this survey's results, the release will be a cumulative figure of several firms with no names mentioned.

Sincerely,

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FIGURE 2

COMPANY _____

DATE _____ TELEPHONE _____

NAME OF INDIVIDUAL INTERVIEWED _____

POSITION _____

1. DO YOU HAVE ANY PROBLEMS AFFECTING YOUR OPERATION (specify):

☐ Labor _____ ☐ Utilities _____

☐ Financing _____ ☐ Transportation _____

☐ Taxes _____ ☐ Zoning _____

☐ Pollution _____ ☐ Education or Training _____

☐ Other (explain) _____

2. WILL ANY OF THESE PROBLEMS AFFECT YOUR FUTURE OPERATIONS OR POSSIBLE EXPANSION HERE? _____

WHICH ONE? _____

HOW? _____

3. DO YOU HAVE ANY EXISTING COMPLAINTS THAT HAVE NOT BEEN SOLVED? _____

EXPLAIN _____

4. DO YOU HAVE SUFFICIENT ROOM FOR YOUR EXISTING OPERATIONS AT YOUR PRESENT LOCATION?

5. DO YOU HAVE ROOM TO EXPAND AT YOUR PRESENT LOCATION? _____

6. DO YOU HAVE ANY PLANS TO EXPAND OR CHANGE THE LOCATION OF YOUR PLANT?

WHERE? _____

WHY? _____

WHEN? _____

7. DO YOU HAVE ANY SPECIFIC PROBLEMS IN WHICH THE COMMUNITY MAY BE OF ASSISTANCE?

8. ARE YOU PRESENTLY RECEIVING THE QUALITY OF SERVICES FROM THE COMMUNITY YOU FEEL YOU SHOULD? IF NOT, WHAT AREAS DO YOU FEEL COULD BE EXPANDED OR IMPROVED?

GENERAL COMMENTS:

Strategies

An economic development strategy is extremely important. Each strategy will be different for each community. Much can be learned from what is done in other communities, but a great deal depends upon the flexibility and leadership abilities of individuals involved in your community. Things to be remembered in this context are that in almost all instances money is less important than developing good plans for the use of money. Also, retaining existing firms and helping them expand is at least as important to a successful economic development strategy as the search for new enterprises to move into a community. Small firms create most of the new jobs and they often are in the greatest need of assistance. Yet knowledge is scarce about how best to help small firms start up, survive, and expand.

Working With Smaller Firms

Retention and expansion programs are often used only with the larger firms of the community. However, as has been pointed out earlier, the larger job generators may well be the smaller firms. It is important that the team be aware of the small firms in the community and offer them the same services. The team should consider developing special programs for smaller firms as the needs and concerns may be different. Certainly the resources, knowledge, and experience are different.

Encouraging New Firms.

A related area the team needs to be aware of is the opportunity to establish new firms. Almost every community has a number of entrepreneurs who have ideas for business opportunities. With help these people could be the source of a new firm in your community. It is important that team members be alert and attempt to identify these new ventures. The team might want to co-sponsor a series of pre-business workshops working with the Small Business Administration or the nearest university. A number of educational programs can be developed with the university that might be of great assistance to local businesspeople.

Young or small firms (the real job producers) often have problems in raising capital. The team should become familiar with the different funding sources either at the federal level, the state governmental level, or state or local banks. Venture capital sources should be inventoried.

Team members should be aware that many, if not most, entrepreneurs will be independent, will try to finance their firm by personal means, and probably will not seek community assistance. They will also be hard to identify. Many will only have ideas for a product or service and have not thought out the management, financing, or marketing aspects of operating a business.

Once the entrepreneur has been identified, a team member might help the entrepreneur in a number of ways. The team member and the entrepreneur might visit a local loan officer, a certified public accountant, a lawyer, and some successful established firms which might help him or her plan the venture in a systematic way. The reason for this approach is that a high percentage of new firms that start will fail in a relatively short time. Often these failures are due to poor record keeping, lack of financial planning, or poor management. Assistance in the early stages might help to ensure that the new firm will grow and prosper in the community.

Working With Retail and Service Firms.

Most economic development programs concentrate on manufacturing firms and miss the retail and service firms. Yet in recent years these industries have been the fastest growing. The economic development team should be aware of the increasing growth in the service sector and offer existing or potential entrepreneurs in this sector the same assistance as they do in other sectors. "Nationally, the greatest employment expansion is occurring in the service industries, while the most significant business contraction is occurring in the manufacturing sector." (3, pages 9, 10)

Summary

Much of the community's economic expansion is likely to come from existing or new firms. Therefore, the community which desires economic expansion needs a strong retention, expansion, and creation program. An enthusiastic development team which is knowledgeable and respected is almost a necessity.

The economic development team will need to form subcommittees to carry out programs of visitations and follow-up activites, and in new firm creation.

Young and small firms could possibly be a community's largest job generators and should be included in retention and expansion programs. "The job-generating firm tends to be small, it tends to be young, it tends to be dynamic... it is the kind of firm that makes banks feel very uncomfortable." (1: page 14). In short, the firms that can and do generate the most jobs are the most difficult to reach through conventional means. The team will have to develop innovative programs to identify and work with these firms.

The service industries are growing in importance and economic development and should be included in the retention, expansion, and creation program.

The objective of retention, expansion, and creation programs is to establish an environment where business and the community can work together on economic development.

Sources

1. *Expanding the Opportunity to Produce: Revitalizing the American Economy Through New Enterprise Development: A Policy Reader* (1981). Edited by Robert Friedman and William Schweke. Corporation for Enterprise Development, 2420 "K" Street NW, Washington, D.C. 20037.
2. *Community Guide to Expanding and Developing Local Industry* (1970). Texas Electric Service Company, Area Development Division, P.O. Box 970, Fort Worth, Texas 76101.
3. *Getting Business to Work for Your Development Goals*, Holly Wallace, 1301 Pennsylvania Avenue NW, Washington, D.C. 20004.

This report was taken in large part from an excellent publication by Sam Crawford at Ohio State University Cooperative Extension Service. The title of his publication is "Economic Development Through Retention, Expansion and Creation of Local Firms," Bulletin 677, March 1981. Sam Crawford is an area Extension agent in Ohio and has had extensive experience in conducting these kinds of programs.

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